



Taking aim at low transparency: it's hard to see all the costs of war

The cost of conflict

Der amerikanische Ökonom und Nobelpreisträger Joseph Stiglitz zeigt in seinem neuen Buch, dass die Kosten- und Leistungsrechnung für den Irak-Krieg eine Milchmädchenrechnung war. Den Mann und seine Einsichten stellt JULIAN EARWAKER vor.

difficult US plus

“Under every plausible scenario, the negative effect will be quite small relative to the economic benefits.” These were the words of Larry Lindsey, economic adviser to the White House, answering questions in September 2002 about the likely impact of war in Iraq. When Lindsey later said that the cost of the coming conflict could be as high as \$200 billion, it was dismissed as “baloney” by Donald Rumsfeld, then secretary of defense. Rumsfeld’s deputy at the time, Paul Wolfowitz, even suggested that the reconstruction of Iraq could pay for itself through increased oil earnings.

standard used in business — Stiglitz makes the cash-basis accounting methods and old-fashioned bookkeeping of the U.S. government transparent. Put simply, accrual-basis accounting takes known future obligations and costs into consideration, while cash-basis accounting does not. Stiglitz’s analysis demonstrates that cash-basis accounting can lead to poor decision-making.

Why should one listen to Stiglitz? The international sales of his books and his best-selling critiques of global-

A C C L O S E R L O O K
Accrual-basis accounting recognizes income when it's earned, rather than when it's received. The same is true of costs: they are considered to exist as soon as a commitment is made to pay, not when the payment actually goes out. Unlike cash-basis accounting, this system helps businesses to see how much money will come in and go out in the future.

Five years on, a book published by the Nobel Prize-winning economist Joseph Stiglitz and Harvard public policy specialist Linda Bilmes shows what the conflict is really costing. *The Three-Trillion-Dollar War* is the first attempt anyone has made to get an overview of the total economic costs of modern war. Using solid research, carefully checked figures and accrual-basis accounting — the

BIOGRAPHY IN BRIEF

JOSEPH EUGENE STIGLITZ was born in Gary, Indiana, on February 9, 1943. A graduate of Amherst College, he received his doctorate in 1967 from the Massachusetts Institute of Technology and in 1970 became a full professor at Yale University. Recognized as one of the world's leading economic educators, Stiglitz started *The Journal of Economic Perspectives* in 1987. He was a member of and later headed the Council of Economic Advisers, advising President Bill Clinton from 1993 to 1997. Stiglitz contributed to the second report of the Intergovernmental Panel on Climate Change in 1995. He was chief economist and senior vice president of the World Bank from 1997 to 2000.

In 2001, Stiglitz was awarded the Nobel Prize in economics for his work on information asymmetries, which show that markets are seldom efficient. Already a best-selling author of books that are used to teach economics at universities, he began writing popular economics books with *Globalization and Its Discontents* (2002), which has now sold more than one million copies and has been translated into 35 languages. Stiglitz is currently a professor at Columbia University in New York City. In 2004, he married Anya Schiffrin, a leading business journalist and lecturer at Columbia.



Guerdin/Reporters/Laif

ization have made him one of the most widely respected economists in the world. His long involvement in the economics of equality and social justice has given him visionary status. One sees this in his newest book: the costs to people and society are of great importance in *The Three-Trillion-Dollar War*. Stiglitz approaches the humanitarian dimension of Iraq with compassion and understanding, while at the same time taking a hard line on the far-reaching economic consequences.

The timing of this book — appearing in an election year — is important. Iraq is a central topic in the media. The U.S. economy is in recession, and oil prices are at a record high. The war has made both worse, Stiglitz says, with America’s incompetence and deceit lying at the heart of the problem. He explains how, with Iraq, the Bush administration didn’t

account for its spending in the federal budget, which would have meant more limits and controls. Instead, the government put through repeated requests for emergency funding — something actually intended for unexpected catastrophes like Hurricane Katrina. No wonder the costs of the Iraq war are completely out of control.

In his report, Stiglitz examines the macroeconomic and global consequences of the war, as well as the long-term costs to the “coalition of the willing”. Britain, for example, which set aside £1 billion for war spending, will probably face costs of more than £20 billion by the end of 2010. Whatever concerns existed about the morality of the war when it began on March 20, 2003, it was widely thought that this would be a quick and relatively cheap conflict. Such optimism was a mistake, Stiglitz says. He explains his views in an exclusive interview with *Spotlight*.

Have you always had a strong social conscience?

Yes. It was really those concerns that originally motivated me to go into economics. I consider myself both pragmatic and an idealist: I think it is important to approach problems with an ideal conception of what kind of society we ought to be striving for, at the same time understanding that you don’t get there in a single step.

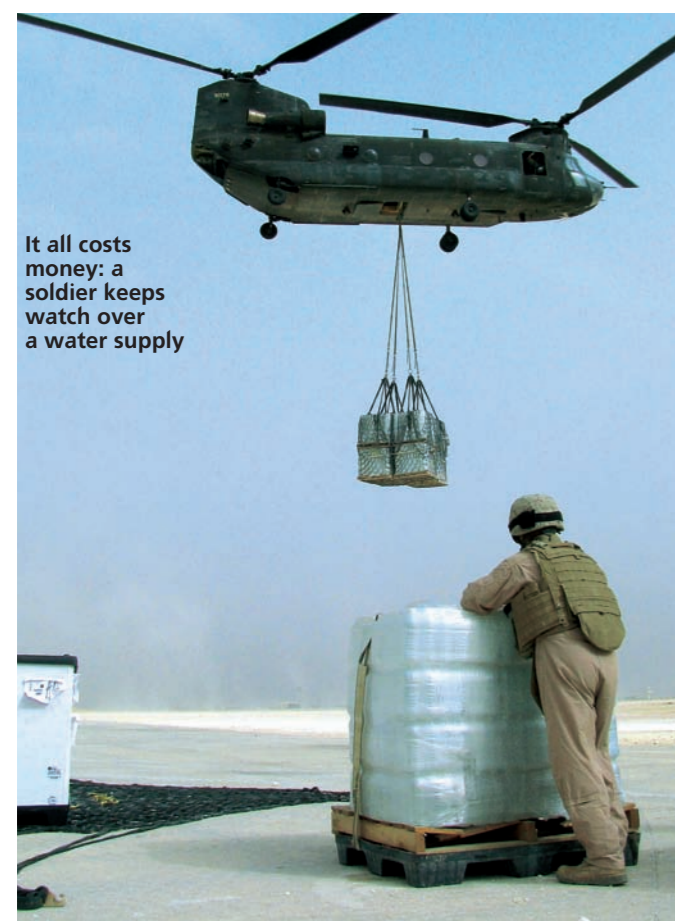
Is *The Three-Trillion-Dollar War* unpatriotic?

No. Democracy is about citizens participating in decision-making in a meaningful way, which means they have to be informed, and they have to understand the issues. I very much view my work as trying to contribute to an informed citizenry, and trying to make democracy work better.

Was it just chance that the book came out in an election year?

We wanted to bring the book out for the fifth anniversary of the war [in March 2008]. This is the time for asking, “What have we bought? Where are we?” A war like this is so enervating you get shell-shocked. Some kid [in America] kills 10 people and it’s a big news story. Every day in Iraq, 25, 50, or 100 people get killed in a way that is no longer newsworthy. Repeated events make you stop thinking.

account for sth. [ə'kaunt fɜː]	über etw. Rechenschaft ablegen
accrual-basis accounting [ə'kruːəl ,beɪsɪs ə'kauntɪŋ]	periodengerechte Buchführung
baloney [bə'luːni] <i>ifml.</i>	Quatsch
billion ['bɪljən]	Milliarde(n)
cash-basis accounting ['kæʃ ,beɪsɪs ə'kauntɪŋ]	Einnahmen-Ausgaben-Rechnung
citizenry ['sɪtɪzənri]	Bürgerschaft; hier: Staatsbürger
compassion [kəm'pæʃən]	Mitgefühl
contribute to sth. [kən'trɪbjət tə]	zu etw. beitragen; hier: etw. fördern
copy ['kɒpi]	Exemplar
deceit [di'siːt]	Täuschung(smanöver)
deputy ['depjətɪ]	Stellvertreter(in)
discontent [ˌdɪskən'tent]	Unzufriedenheit; hier: Ärgernis
dismiss sth. [dɪs'mɪs]	etw. abtun
enervating ['enərveɪtɪŋ]	kraftzehrend, strapaziös
get shell-shocked [ˌɡet 'ʃel ʃɑːkt]	im Krieg eine posttraumatische Belastungsstörung entwickeln; hier: traumatisiert werden
impact ['ɪmpækt]	Auswirkungen
newsworthy ['nuːz,wɜːði]	berichtenswert
obligation [ˌɒblɪ'ɡeɪʃən]	finanzielle Verpflichtung
set sth. aside [ˌset ə'saɪd]	etw. einplanen
solid ['sɒlɪd]	verlässlich
strive for sth. ['straɪv fɜː]	etw. anstreben
take a hard line on sth. [ˌteɪk ə ,hɑːrd 'laɪn ɔːn]	mit einer Sache scharf ins Gericht gehen
trillion ['trɪljən]	Billion(en)



It all costs money: a soldier keeps watch over a water supply

Adding up Iraq

1. Total <u>appropriations</u> to date	\$600 billion
2. <u>Operational expenses</u> hidden elsewhere in the defense budget	\$110 billion
SUBTOTAL	\$710 billion
3. <u>Correct for</u> inflation and “time value” of money	\$90 billion
SUBTOTAL	\$800 billion
4. Add future operational expenses	\$520 billion
5. Add full cost of health care and disability payments for returning veterans	\$590 billion
6. Add the cost of restoring the military to its level of strength before the war	\$280 billion
7. Add <u>budgetary</u> costs from other parts of government	\$38 billion
8. Add <u>interest</u> on borrowed funds	\$615 billion
TOTAL cost to federal budget	\$2.843 trillion
9. Estimated cost to the economy	\$370 billion
10. Estimated macroeconomic impact	\$1.9 trillion
TOTAL cost of the conflict	\$2.8 to 5.1 trillion

Source: *The Three-Trillion-Dollar War*



Don't blame us: Wolfowitz and General Richard Myers

Where are the biggest differences between the real costs of Iraq and the early predictions? They made big mistakes in every area. The \$50–60 billion they talked about is what we are spending up front every three months. They thought this was going to be a short war. They were obviously wrong. They mismanaged the war, so they tried to keep the costs down, leading to higher costs later. Deferred maintenance, for example, means that when they come to replace or repair military equipment, the cost has doubled or even tripled. They didn't ever think about the cost later on: veterans' disability. They should have, because

A C C L O S E R L O O K

An **opportunity cost** is the cost to a person or a business of a missed chance. Did you watch television last night? If your other option was to teach a maths lesson that would have earned you €25, then that's the rough opportunity cost of your evening. There are other factors to consider — like the value you place on entertainment — that can change how you see this cost.

One of the most important aspects of the book is that it gives an accurate account of what the war costs. And not only for this war. We were consciously thinking about this as a model because, unfortunately, there will be other wars. That's why we end the book with a discussion on policy recommendations. Typically, you leave a war and don't think what can be learned from this episode, the many consequences it has for our economy and our society. The process of tabulation in the book is a way of systematically thinking through those costs.

The word “trillion” is fairly meaningless to most people. Can you put the figures into context? This is the second most expensive conflict for America, after World War II. U.S. Social Security is bankrupt; for about one sixth of the cost of the Iraq war, we could have put it on solid financial ground for at least the next 50 to 75 years. The U.S. is currently spending a little over \$100 million on autism research. We're talking about something like four hours of Iraq. That gives you a feeling for how fast we're burning up money.

You're talking about opportunity costs, but the money wasn't there to begin with — it's borrowed money. That's right. The fact that we borrowed everything was a deliberate attempt to try to persuade the American people that we could have a war that costs nothing. It was passing on the cost to others. But there is no such thing as a war that costs nothing.

for the Gulf War, which lasted for 30 days, we are now paying \$4.3 billion a year in disability benefits. Then you have health-care costs. And the administration never thought of the costs to the economy that went beyond the war.

Were you shocked when you started to look into the figures and talked to veterans' organizations? When I began the exercise, I knew that government accounting didn't show the full cost. I was still shocked at the great size of the discrepancy. I was also shocked at the lengths to which the Bush administration went to try to hide the costs. We had to work with veterans' groups and the Freedom of Information Act to find out what they were doing. We were shocked when it came to the way they were treating veterans. Honestly, I did not think I would end up doing a book where the veterans would be our allies.

Where was Congress in all of this? Over five years, it allowed repeated applications for emergency funding. Why? [There were] 24 bills, actually. Some people have said, well, it was a Republican Congress, a Republican president. That's not an excuse. In other wars, we had a Democratic Congress and a Democratic president, and Congress still exercised oversight. This is the first time Congress has abdicated its responsibility. Now we have a Democratic Congress, and the president has tried to weaken its ability to fulfill its responsibilities by suggesting that every time it ques-

abdicate one's responsibility	sich aus der Verantwortung ziehen
act [ækt]	Gesetz
ally ['ælaɪ]	Verbündeter
anticipate sth. [æn'tɪsɪpeɪt]	etw. erwarten/vorhersehen
appropriation [əˌprɒpri'eɪʃən]	Mittelzuweisung
attributable: be ~ to sth. [ə'trɪbjətəbəl]	auf das Konto einer Sache gehen
budgetary ['bʌdʒətəri]	Etat-
burn sth. up [bɜːn 'ʌp]	etw. verbrauchen
commitment [kə'mɪtmənt]	Engagement, Unterstützung
conduct (a war) [kən'dʌkt]	(Krieg) führen
consciously ['kɔːnʃəsli]	ganz bewusst
correct for sth. [kə'rekt fɔː]	um etw. bereinigen
counterfactual [ˌkaʊntə'rɪfæktʃuəl]	gefälscht; hier: die Fakten verdrehend
deferred [dɪ'fɜːd]	aufgeschoben
deliberate [dɪ'lɪbərət]	absichtlich, bewusst
disability benefit [ˌdɪsə'bɪləti ˌbenɪfɪt]	Versehrtenrente
(disability)	Behinderung
discrepancy [dɪs'kreɪnsi]	Unterschied, Abweichung
disturb sth. [dɪ'stɜːb]	etw. durcheinander bringen
equation [i'kwɛɪʃən]	Gleichung
Great Depression [ˌɡreɪt di'preʃən]	Weltwirtschaftskrise (1929)
inference [ɪn'fɜːrəns]	logischer Schluss
interest ['ɪntrəst]	Zinsen
lengths: go to (great) ~ to do sth. [lɛŋθs]	sich große Mühe geben, etw. zu tun
operational expenses [ˌɒpə'reɪʃənəl ɪk'spensɪz]	Kosten für den Militäreinsatz; auch: Betriebskosten
opportunity costs [ˌɒpər'tuːnəti ˌkɔːsts]	Alternativkosten
oversight ['oʊvərsaɪt]	Aufsicht(sfunktion)
prediction [prɪ'dɪkʃən]	Prognose
Social Security [ˌsoʊʃəl sɪ'kjʊrəti] US	Sozialversicherung
subtotal ['sʌb,təʊtəl]	Zwischensumme
supposedly [sə'pəʊzɪdli]	angeblich
tabulation [ˌtæbjə'leɪʃən]	tabellarisches Aufstellen
up front [ˌʌp 'frʌnt]	vorneweg



A high price: who pays for soldiers' injuries?

tions spending, it's questioning our commitment to the troops. That reaction is destructive of democratic processes. You have to be able to say “I can disagree with you, but I'm still loyal to the country.” The irony of a war that was supposedly for democracy being conducted in ways that weaken democracy couldn't be greater.

What about the macroeconomic consequences of the war for the global economy? How much of the increase in oil prices could have happened anyway? This is what we call counterfactual history. We discuss very carefully in the book how to make inferences. In this case, we had futures markets anticipating changes in demand and supply, saying prices are going to remain roughly where they are at \$25 per barrel. Then you ask, “What are the new effects that disturb that equation?” Iraq is the only one. We were conservative in saying only \$5–10 of the rise is attributable to the war. We think it's a lot more than that.

Does it matter who wins the 2008 U.S. presidential election? Very much so. John McCain has said we may have to stay in Iraq for 100 years, while Barack Obama says we have to leave as soon as we can. The Democrats are aware of the opportunity cost, for both security and the economy. McCain says he doesn't understand the economy — that it's not his strength. We are facing the most serious economic problems since the Great Depression. It will require confidence in the president and his judgment. I don't think there's that confidence in McCain's economic judgment. ●

FURTHER READING
The Three-Trillion-Dollar War with Linda Bilmes, Pantheon, ISBN 978-0-393-06701-9, €16.80; * German: *Die wahren Kosten des Krieges*, Pantheon.*
Making Globalization Work, Penguin, ISBN 978-0-14-102496-7, €13.60; * German: *Die Chancen der Globalisierung*, Pantheon.*
 ● www.josephstiglitz.com
 * These products are available from www.SprachenShop.de